

# **NATIONAL CREDIT UNION ADMINISTRATION OPERATING FUND**

**Financial Statements for the Years Ended  
December 31, 2001 and 2000, and  
Independent Auditors' Reports**

# NATIONAL CREDIT UNION ADMINISTRATION OPERATING FUND

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## INDEPENDENT AUDITORS' REPORT

To the Inspector General of the  
National Credit Union Administration:

We have audited the accompanying balance sheets of the National Credit Union Administration Operating Fund as of December 31, 2001 and 2000, and the related statements of revenues, expenses, and changes in fund balance, and of cash flows for the years then ended. These financial statements are the responsibility of the National Credit Union Administration Operating Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of the National Credit Union Administration Operating Fund as of December 31, 2001 and 2000, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 22, 2002, on our tests of the National Credit Union Administration Operating Fund's compliance with certain provisions of laws, regulations, contracts, and grants, and our consideration of its internal control over financial reporting. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

February 22, 2002

# NATIONAL CREDIT UNION ADMINISTRATION OPERATING FUND

## BALANCE SHEETS DECEMBER 31, 2001 AND 2000 (Dollars in Thousands)

ASSETS	2001	2000
Cash and cash equivalents	\$ 15,880	\$ 9,923
Due from National Credit Union Share Insurance Fund (Note 4)	1,723	938
Employee advances	529	663
Other accounts receivable	93	153
Prepaid expenses	265	429
Fixed assets - net of accumulated depreciation and amortization (Note 3)	38,455	41,197
Employee residences held for resale	<u>269</u>	<u>87</u>
TOTAL ASSETS	<u>\$ 57,214</u>	<u>\$ 53,390</u>
<b>LIABILITIES AND FUND BALANCE</b>		
LIABILITIES:		
Accounts payable	\$ 5,395	\$ 3,621
Obligations under capital leases (Note 5)	2,285	3,860
Accrued wages and benefits	4,798	4,492
Accrued annual leave	7,531	6,668
Accrued employee travel	776	767
Notes payable to National Credit Union Share Insurance Fund (Note 4)	<u>30,335</u>	<u>31,748</u>
Total liabilities	51,120	51,156
FUND BALANCE	<u>6,094</u>	<u>2,234</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 57,214</u>	<u>\$ 53,390</u>

See notes to financial statements.

# NATIONAL CREDIT UNION ADMINISTRATION OPERATING FUND

## STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND BALANCE YEARS ENDED DECEMBER 31, 2001 AND 2000 (Dollars in Thousands)

	2001	2000
REVENUES:		
Operating fees	\$ 46,858	\$ 57,752
Interest	989	1,719
Other	<u>161</u>	<u>243</u>
Total revenues	<u>48,008</u>	<u>59,714</u>
EXPENSES (Note 4):		
Employee wages and benefits	33,266	47,054
Travel	4,046	6,951
Rent, communications, and utilities	1,226	1,671
Contracted services	1,950	2,744
Other	<u>3,660</u>	<u>5,360</u>
Total expenses	<u>44,148</u>	<u>63,780</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES	3,860	(4,066)
FUND BALANCE, BEGINNING OF YEAR	<u>2,234</u>	<u>6,300</u>
FUND BALANCE, END OF YEAR	<u>\$ 6,094</u>	<u>\$ 2,234</u>

See notes to financial statements.

# NATIONAL CREDIT UNION ADMINISTRATION OPERATING FUND

## STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2001 AND 2000 (Dollars in Thousands)

	2001	2000
CASH FLOWS FROM OPERATING ACTIVITIES:		
Excess (deficiency) of revenues over expenses	\$ 3,860	\$ (4,066)
Adjustments to reconcile excess (deficiency) of revenues over expenses to cash provided by operating activities:		
Depreciation and amortization	3,574	3,637
Loss on disposal of employee residences held for resale	28	64
Loss on disposal of fixed assets	9	-
Miscellaneous allowances	1	(8)
(Increase) decrease in assets:		
Due from National Credit Union Share Insurance Fund	(785)	680
Employee advances	134	153
Other accounts receivable	60	105
Prepaid expenses	164	(324)
(Decrease) increase in liabilities:		
Accounts payable	1,774	(472)
Accrued wages and benefits	306	102
Accrued annual leave	863	808
Accrued employee travel	9	(61)
Net cash provided by operating activities	<u>9,997</u>	<u>618</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of fixed assets and employee residences held for resale	(1,272)	(1,651)
Proceeds from sale of employee residences held for resale	<u>265</u>	<u>810</u>
Net cash used in investing activities	<u>(1,007)</u>	<u>(841)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayments of notes payable	(1,413)	(1,413)
Principal payments under capital lease obligations	<u>(1,620)</u>	<u>(1,136)</u>
Net cash used in financing activities	<u>(3,033)</u>	<u>(2,549)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	5,957	(2,772)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>9,923</u>	<u>12,695</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 15,880</u>	<u>\$ 9,923</u>

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:  
Interest paid during the years ended December 31, 2001 and 2000 was \$1,695 and \$1,933 (thousands), respectively.

SUPPLEMENTAL DISCLOSURE OF NONCASH FINANCING ACTIVITIES:  
Capital lease obligations of \$45 and \$4,987 (thousands) were incurred when the Fund entered into leases for new equipment during the years ended

# NATIONAL CREDIT UNION ADMINISTRATION OPERATING FUND

## NOTES TO FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2001 AND 2000

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### 1. ORGANIZATION AND PURPOSE

The National Credit Union Administration Operating Fund (the Fund) was created by the Federal Credit Union Act of 1934. The Fund was established as a revolving fund in the United States Treasury under the management of the National Credit Union Administration (NCUA) Board for the purpose of providing administration and service to the Federal Credit Union System.

### 2. SIGNIFICANT ACCOUNTING POLICIES

*Cash Equivalents* - The Federal Credit Union Act permits the Fund to make investments in United States Government securities or securities guaranteed as to both principal and interest by the United States Government. Cash equivalents are highly liquid investments with original maturities of three months or less. All investments in 2001 and 2000 were cash equivalents and are stated at cost, which approximates fair value.

*Depreciation and Amortization* - Building, furniture and equipment, equipment under capital leases, and leasehold improvements are recorded at cost. Depreciation and amortization are computed by the straight-line method over the estimated useful lives of the building, furniture and equipment, and the shorter of the estimated useful life or lease term for leasehold improvements. Estimated useful lives are forty years for the building and three to ten years for the furniture, equipment, and leasehold improvements.

*Operating Fees* - The Fund assesses each federally chartered credit union an annual fee based on the credit union's asset base as of the preceding December 31. The fee is designed to cover the costs of providing administration and service to the Federal Credit Union System. The Fund recognizes this operating fee revenue ratably over the year.

*Income Taxes* - The Fund is exempt from Federal income taxes under §501(c)(1) of the Internal Revenue Code.

*Fair Value of Financial Instruments* - The following methods and assumptions were used in estimating the fair value disclosures for financial instruments:

Cash and cash equivalents, receivable from National Credit Union Share Insurance Fund (NCUSIF), employee advances, other accounts receivable, accounts and notes payable to NCUSIF, and other accounts payable are recorded at book values, which approximate the respective fair values.

*Use of Estimates* - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from management's estimates.

### 3. FIXED ASSETS

Fixed assets are comprised of the following (in thousands):

	2001	2000
Office building and land	\$ 42,419	\$ 42,383
Furniture and equipment	9,592	16,588
Equipment under capital leases	<u>5,035</u>	<u>4,987</u>
Total	57,046	63,958
Less: Accumulated depreciation and amortization	<u>(18,591)</u>	<u>(22,761)</u>
Fixed assets - net	<u>\$ 38,455</u>	<u>\$ 41,197</u>

Accumulated amortization balances for equipment under capital leases as of December 31, 2001 and 2000 were \$2,881,000 and \$1,233,000, respectively.

### 4. TRANSACTIONS WITH NCUSIF

Certain administrative services are provided by the Fund to NCUSIF. The Fund charges NCUSIF for these services based upon an annual allocation factor approved by the NCUA Board derived from a study of actual usage. The allocation factors were 66.72% and 50.00% to NCUSIF for 2001 and 2000, respectively. The cost of the services allocated to NCUSIF, which totaled approximately \$88,508,000 and \$63,780,000 for 2001 and 2000, respectively, is reflected as a reduction of the corresponding expenses in the accompanying financial statements.

In 1988, the Fund entered into a \$2,161,000 thirty-year unsecured term note with NCUSIF for the purchase of a building. Interest costs incurred were approximately \$66,000 for 2001 and \$76,000 for 2000. The outstanding principal balance at December 31, 2001 and 2000, was \$1,170,000 and \$1,242,000, respectively.

In 1992, the Fund entered into a commitment to borrow up to \$41,975,000 in a thirty-year secured term note with NCUSIF. The monies were drawn as needed to fund the costs of constructing a new building. Interest costs incurred were approximately \$1,629,000 and \$1,857,000 for 2001 and 2000, respectively. The note payable balance at December 31, 2001 and 2000, was approximately \$29,165,000 and \$30,506,000, respectively.

The above notes require principal repayments as follows (in thousands):

	Unsecured Term Note	Secured Term Note	Total
2002	\$ 72	\$ 1,341	\$ 1,413
2003	72	1,341	1,413
2004	72	1,341	1,413
2005	72	1,341	1,413
2006	72	1,341	1,413
Thereafter	<u>810</u>	<u>22,460</u>	<u>23,270</u>
	<u>\$ 1,170</u>	<u>\$ 29,165</u>	<u>\$ 30,335</u>



The variable rate on both notes is equal to NCUSIF's prior-month yield on investments. The average interest rates during 2001 and 2000 were 5.47% and 5.95%, respectively. The interest rates at December 31, 2001 and 2000, were 4.56% and 6.05%, respectively.

## 5. LEASE COMMITMENTS

*Description of Leasing Agreements* - The Fund has entered into a number of lease agreements with vendors for the rental of office space as well as the lease of office equipment that includes laptops, printers, monitors, and copiers.

*Operating Leases* - The Fund leases office space under lease agreements that expire through 2004. Office rental charges amounted to approximately \$966,000 and \$813,000 of which approximately \$654,500 and \$406,500 was reimbursed by NCUSIF for 2001 and 2000, respectively. In addition, the Fund leases office equipment under operating leases with lease terms of less than one year.

*Capital Leases* - The Fund leases computer equipment under lease agreements that expire through 2005.

The future minimum lease payments as of December 31, 2001, are as follows (in thousands):

	Operating Leases	Capital Leases
2002	\$ 972	\$ 1,856
2003	439	496
2004	326	38
2005	<u>-</u>	<u>4</u>
Total	<u>\$ 1,737</u>	2,394
Less: Imputed interest		<u>(109)</u>
Present value of net minimum lease payments		<u>\$ 2,285</u>

Based on the allocation factor approved by the NCUA Board for 2001, NCUSIF will reimburse the Fund for approximately 66.72% of the future operating lease payments.

## 6. RETIREMENT PLAN

The employees of the Fund are participants in the Civil Service Retirement and Disability Fund, which include the Federal Employees' Retirement System (FERS). Both plans are defined benefit retirement plans covering all of the employees of the Fund. FERS is comprised of a Social Security Benefits Plan, a Basic Benefits Plan, and a Savings Plan. Contributions to the plans are based on a percentage of employees' gross pay. Under the Savings Plan, employees can also elect additional contributions between 1% and 10% of their gross pay, and the Fund will match up to 5% of the employees' gross pay. In 2001 and 2000, the Fund's contributions to the plans were approximately \$10,310,000 and \$9,460,000, respectively, of which approximately \$6,879,000 and \$4,730,000 were reimbursed by NCUSIF, respectively.

The Fund does not account for the assets of the above plans and does not have actuarial data with respect to accumulated plan benefits or the unfunded liability relative to eligible employees. These

amounts are reported by the U.S. Office of Personnel Management for the Civil Service Retirement and Disability Fund and are not allocated to individual employers.

## 7. DISCLOSURES OF FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amount and the estimated fair value of the Fund's financial instruments are as follows (in thousands):

	<b>December 31, 2001</b>		<b>December 31, 2000</b>	
	<b>Carrying Amount</b>	<b>Fair Value</b>	<b>Carrying Amount</b>	<b>Fair Value</b>
Cash and cash equivalents	\$ 15,880	\$ 15,880	\$ 9,923	\$ 9,923
Due from NCUSIF	1,723	1,723	938	938
Employee advances	529	529	663	663
Other accounts receivable	93	93	153	153
Accounts payable	5,395	5,395	3,621	3,621
Obligation under capital lease	2,285	2,285	3,860	3,860
Notes payable to NCUSIF	30,335	30,335	31,748	31,748

## 8. CONTINGENCIES

NCUA is currently party to a number of other disputes that involve or may involve litigation. In the opinion of management, the ultimate liability with respect to these disputes, if any, will not be material to NCUA's financial position.

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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED UPON THE AUDIT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Inspector General of the  
National Credit Union Administration:

We have audited the financial statements of the National Credit Union Administration Operating Fund (the Fund) as of and for the year ended December 31, 2001, and have issued our report thereon dated February 22, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Compliance**

As part of obtaining reasonable assurance about whether the Fund's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Fund's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

However, we noted other matters involving the internal control over financial reporting that we will report to the management of the Fund in a separate letter dated February 22, 2002.

This report is intended solely for the information and use of the Inspector General, and the Board of the National Credit Union Administration, and the management of the National Credit Union Administration Operating Fund and is not intended to be and should not be used by anyone other than these specified parties.

February 22, 2002